



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



FILE COPY

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Comptroller

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December 27, 2011

Honorable James W. Murphy, Sheriff
City of St. Louis
1114 Market Street, Suite 112
St. Louis, MO 63101

RE: Observation and Review of Tax Delinquent Land Auction (Project 2012-09)

Dear Sheriff Murphy:

Enclosed is a report of the observation and review of the Tax Delinquent Land Auction held by the Sheriff's Office from August 23 through August 25, 2011

The fieldwork was completed on October 13, 2011. Management's responses to the observations and recommendations noted in the report were received on December 20, 2011 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Major George Harsley, Administrative Section Commander
Lt. Ray Harris, Commander of Services



CITY OF ST. LOUIS

SHERIFF'S OFFICE

OBSERVATION AND REVIEW OF TAX DELINQUENT LAND AUCTION

AUGUST 23 THROUGH AUGUST 25, 2011

PROJECT #2012-09

DATE ISSUED: DECEMBER 27, 2011

**Prepared By:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
SHERIFF'S OFFICE
OBSERVATION AND REVIEW OF TAX DELINQUENT LAND AUCTION
AUGUST 23 THROUGH AUGUST 25, 2011**

EXECUTIVE SUMMARY

Purpose

The purpose of this observation and review was to determine if:

- Land auction transactions and proceeds were accurately recorded and reported.
- Land auction proceeds were adequately safeguarded.
- The land auction process was performed in compliance with applicable Missouri State Statutes, Ordinances of the City of St. Louis and policies and procedures of the Sheriff's Office.

Scope and Methodology

The scope of the review included sales of tax delinquent land parcels in LRA Suit #157, conducted from August 23 through August 25, 2010. The review was confined to evaluating the process for assurance of the expected results. The review procedures included:

- Inquiries of management and staff.
- Observation of relevant processes.
- Reviews for compliance with policies and procedures, as well as applicable laws and regulations.
- Limited tests of related controls.
- Follow-ups on prior audit observations.
- Other procedures considered necessary.

Background

The Municipal Land Reutilization Law (City of St. Louis) was established by the Revised Statutes of Missouri (RSMo), Sections 92.700 to 92.920, which also created the Land Reutilization Authority (LRA). LRA manages, auctions, transfers and makes other dispositions of tax delinquent real estate acquired by foreclosure of the applicable tax liens. The statutes also authorize the courts to order the Sheriff to advertise and sell (or attempt to sell) that property at public auction, in an effort to recover the delinquent taxes and incurred collection costs, before turning any unsold property over to LRA.

Exit Conference

An exit conference was conducted at the Sheriff's Office on December 12, 2011. The Sheriff's Office was represented by the Sheriff, the Commander of Services, the Chief Execution Deputy, and the Land Sales and Executions Deputies. The Internal Audit Section was represented by the Auditor-in-Charge.

Conclusion

No evidence of non-compliance with the requirements stated above was noted for the tax delinquent land auction reviewed. It was noted, however, that the opportunity exists for the Sheriff's Office to improve the internal controls over operational and fiscal activities. The following are observations resulting from the review:

1. Opportunity to update written procedures (repeated)
2. Opportunity to improve recordkeeping and liability reconciliation (repeated)

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
SHERIFF'S OFFICE
OBSERVATION AND REVIEW OF TAX DELINQUENT LAND AUCTION
AUGUST 23 THROUGH AUGUST 25, 2011**

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OBSERVATIONS

Status of Prior Observations

The following are prior observations, from the Internal Audit report on Land Auction #150, issued November 19, 2010:

1. Opportunity to update written procedures (**Not Resolved – See Current Observation #1**)
2. Opportunity to improve recordkeeping and liability reconciliation (**Not Resolved – See Current Observation #2**)
3. Opportunity to recover fees paid on tax delinquent land parcel sale set aside (**Resolved**)

Summary of Current Observations

The opportunity exists for the Sheriff's Office to improve controls to ensure the tax delinquent land auction process is performed in compliance with applicable Missouri State Statutes, Ordinances of the City of St. Louis and policies and procedures of the Sheriff's Office. The following observations have resulted from our review:

1. Opportunity to update written procedures (repeated)
2. Opportunity to improve recordkeeping and liability reconciliation (**Repeated, Missouri State audit dated March 2010**)

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Update Written Procedures (Repeated)

The Sheriff's Office's written procedures for tax delinquent land sales had not been updated to reflect recent technology upgrades. The Excel spreadsheet program previously used to record and track the status of sold parcels had been replaced by an Access database program.

Written policies and procedures assist in ensuring that procedures and job functions are:

- Effectively communicated to and understood by staff.
- Approved by management.
- Consistently performed.
- In accordance with management's goals and objectives.

The Sheriff's Office did not have a system of internal control in place to ensure that written policies and procedures are updated whenever the actual procedures in use are changed.

The absence of updated written policies and procedures increases the risk that:

- An organization's processes may not be performed in a consistent way in compliance with regulations and standards.
- Accounting records may not be accurate and reliable.
- Employees may not be effectively trained.
- Appropriate performance standards and measures may not be developed.

Recommendation

It is recommended the Sheriff's Office promptly update the written policies and procedures for court-ordered auctions of tax delinquent land parcels to accurately reflect the procedures that are currently performed. The updated policies and procedures should also include procedures for the following:

- A. Entries to the database tracking system to reflect payments made by vouchers and payouts to multiple claimants.
- B. Generation of any cumulative financial and statistical reports from the database tracking system.
- C. Reconciliation of the office's accounting records to the records/reports obtained from outside sources (the monthly City general ledger reports and reports generated by the Collector of Revenue).

Management's Response

This has been resolved because a written manual has been completed since December 13, 2011.

2. Opportunity To Improve Recordkeeping And Liability Reconciliation (Repeated)

In following up the state audit finding dated March 2010, the Internal Audit Section (IAS) found that the Sheriff's Office had not yet implemented procedures to reconcile its tax delinquent land sales liabilities to the funds held in the City's Land Auction Sales Fund pending distribution.

A comparison of the two records as of June 30, 2010 had disclosed a difference of \$(376,954) as follows:

Sheriff's Office land sales with open balances as of 6/30/2010	\$2,750,672
Uncorrected Sheriff's records receipt and disbursement posting errors	<u>(1,086,847)</u>
Total land sales funds in hand as per Sheriff's records	\$1,663,825
City Land Auction Sales Fund balance as of 6/30/2010	<u>\$1,286,871</u>
Unidentified difference (deficit) as of 6/30/2010	<u>\$ (376,954)</u>

The Sheriff's Office is responsible for conducting sales of property with delinquent real estate taxes and distributing the proceeds to the creditors under Sections 92.700 to 92.920, RSMo, the Municipal Reutilization Law.

The office did not have a system of control in place for tracking the distribution of auction proceeds and reconciling the undistributed funds to the Land Auction Sales Fund.

The absence of such reconciliation may lead to improper payments or misappropriation of the auction sales fund.

Recommendation

It is recommended that the Sheriff's Office:

A. Ensure that the database program used for tracking status changes of the sold parcels includes the capability of summarizing the cumulative liability amounts due to various creditors from each land auction's proceeds.

B. Ensure that all employees assigned ongoing or temporary responsibility for:

- Making entries to the land sales tracking system
- Obtaining data from the land sales tracking system, or
- Supervising such employees

receive adequate training to effectively use the systems.

C. Reconcile monthly the outstanding land auction sales liabilities to the balance in the Land Auction Sales Fund maintained within the City treasury. Due to the large amount of the unidentified difference as of June 30, 2010, it is further recommended that the Sheriff's Office take the following actions to correct and maintain the accuracy of the Land Auction Sales Fund accounting in the City's general ledger:

2. Continued ...

1. Determine for which court-ordered sale numbers the office has available complete and accurate records of transactions affecting the status of liabilities for proceeds obtained for sold land parcels. (Examples of those transactions include proceeds distributions after sale confirmation and deed recording, refunds due to set aside orders, payments of prior owner claims for excess proceeds, and adjustments made by the Collector of Revenue's Office.)
2. For each of those land sales, ensure that the correct entries have been made to the office's land parcel sales status tracking system.
3. Ensure that the applicable corresponding entries have been made to the City's general ledger by disbursement voucher or adjusting journal entry.
4. After all such entries have been made, request that the Comptroller's Office establish a new, separate fund account for the reconciled portion of the fund balance. Use the new account for posting of all future land sale and proceeds and distribution transactions. The monthly reconciliation would be performed between the balance in the new account and the total of open liabilities documented for each sale in the tracking system.
5. Continue efforts to identify and resolve any unidentified differences between the balance in the prior Land Auction Sales Fund account and the available records for incompletely tracked land sales

Management's Response

The Sheriff's department is waiting for the database changes to be finished. There is no confirmed completion date.

The Sheriff's department will contact the Comptroller's Office to set up a new land tax account in January 2012. This account will be used for all land tax sales from 2012 into the future.

Regarding the current land tax account, the land tax person will try to reconcile the account.